THE INVESTMENT RATIONAL

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LIFE INSURANCE TO MEET ESTATE TAXES AND EXPENSES

In the days of ten or a dozen years ago, when there were no inheritance or estate taxes, there was an honest feeling among men of means that they could do as well, or better, with their money as to invest it in life insurance.

This feeling has nearly disappeared since the Federal Government and most of the States have imposed such severe taxes on estates when they pass to proper legatees.

Five estates have recently been probated in Massachusetts and the figures are very interesting:

Total value	$789,000		
Total taxes and expenses	58,000	or	7½%
Total cash on hand to meet expenses	25,111	"	3½%

The difference between $58,000 and $25,111, or $32,889, represents the amount of securities that had to be sold to meet the taxes and expenses. Furthermore, the best securities in the whole estates are usually the ones which the executor elects to sell because there would be the least resultant sacrifice to the estate. In other words —

> INHERITANCE TAXES ARE A LIEN ON THE BEST SECURITIES IN AN ESTATE, BECAUSE THE TAXES HAVE TO BE PAID IMMEDIATELY.

Life Insurance is the only known security which does not shrink in value; it is always worth 100 cents on a dollar. *It is entirely logical, therefore, that a proper amount of life insurance be taken by a man of means to meet the expenses which are known and can be figured out in the settling of his estate.*

LIFE INSURANCE TO INCREASE AN ESTATE

Let us assume a not unusual situation: A man and a wife and three children. He has a $100,000 estate and wishes to provide life incomes for his wife and each of his children.

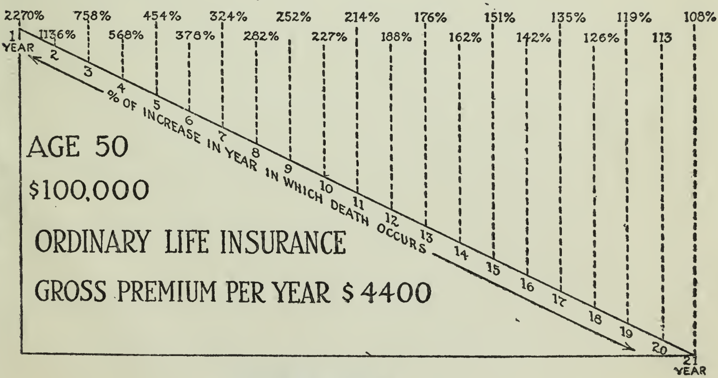
Under normal circumstances, it would take many years to increase the $100,000 estate to large enough proportions so that each beneficiary would receive an income for life of, say $2,500 a year — it would mean doubling the estate.

The price of three or four bonds a year deposited with a life insurance company would immediately increase the estate by $100,000 to $200,000 and would establish the wished-for life incomes of sufficient size at once.

Looking at the transaction from purely an investment standpoint of gain to the estate including the gross deposits, the diagram below shows what percentage of increase is received by the estate if the insured dies before the end of his expectation of life.

These percentages are greatly increased by the return of dividends or refunds which occur annually. The experience of most of the better managed companies has shown that between 15 and 25% of the gross premiums paid in twenty years have been refunded.

The percentages would be manifestly larger if the insurance was taken on a man less than age 50, for his premium would be considerably lower than $4,400 a year.

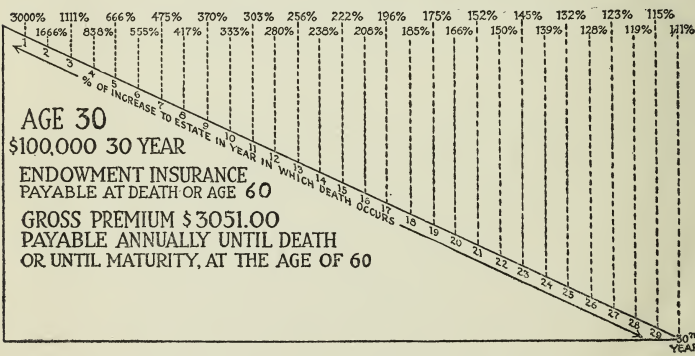


Life Insurance up to February, 1919, was not subject to any Inheritance Taxes, but the law that was passed at that time has imposed a tax, when made payable to individual beneficiaries, on anything over $40,000. *This ruling was modified in February, 1919, as it provides that when the insurance is paid for by anyone other than the insured there is no tax to the insured's estate no matter what the amount.* When Life Insurance is made payable direct to the estate there is no inheritance tax exemption whatsoever, as it merges with the gross assets of the estate. In order, then, that the fullest amount of exemption shall be obtained it is perhaps wise to take this into consideration and have the policies drawn to individual beneficiaries.

Irrespective of the fact that Life Insurance itself is taxed over $40,000, it still remains the only unshrinkable security with which to pay Inheritance Taxes. It is possible to figure what the taxes on the insurance will be, so that an adequate amount can be purchased to provide for this factor as well

The diagram below shows the percentages which $100,000 of 30-year endowment insurance will return to an estate, when taken on a man age 30.

The increase in cost between Ordinary Life policy and a 30-year endowment, at the age of 30, is barely $5.00 per thousand per year. The idea that a man will ultimately receive the money himself, if he lives to age 60, very often appeals. At maturity it may be held in trust by the company until death occurs, returning in the meanwhile approximately 4½ interest.



Under this plan, the most that could ever be paid during the thirty years for this $100,000 insurance is $90,153. If the dividends, which the companies may return in the next thirty years, are anywhere near like what they have been in the past thirty years it would not be an unusual occurrence for this $100,000 of insurance to be increased to approximately $125,000 or $130,000.